

FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTSMAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 950:  
UNDISTRIBUTED OFFSETTING RECEIPTS

(By fiscal year, outlays in billions of dollars)

Item	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
CBO Baseline	-40.4	-42.9	-45.4	-48.2	-51.0	
Proposed Changes						
Sale of power marketing administrations <u>a/</u>	0	-1.5	-2.3	-5.1	-3.7	-12.6
Sale of Naval Petroleum Reserves <u>a/</u>	-2.2	-0.7	0	0	0	-3.0
Auction of unassigned spectrum	-0.6	0	0	0	0	-0.6
Sale of Amtrak assets	0	0	0	0	0	0
Employer share, employee retirement	<u>-0.4</u>	<u>-0.2</u>	<u>-0.2</u>	<u>0.2</u>	<u>0.6</u>	<u>b/</u>
Total	-3.2	-2.5	-2.5	-4.9	-3.1	-16.2
President's 1988 Budget as Estimated by CBO	-43.5	-45.4	-47.8	-53.1	-54.0	
President's 1988 Budget	-45.4	-45.8	-48.5	-54.0	-55.6	
CBO Reestimates	1.9	0.4	0.7	0.9	1.6	5.5

a. The receipts from the proposed sale of the power marketing administrations and the Naval Petroleum Reserves are shown in function 950. Outlays in function 270 would increase, relative to the baseline, after the proposed asset sales, because these assets would no longer generate receipts for the government.

b. Less than \$50 million.

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### Proposed Policy Changes

The budget includes a number of measures that would increase undistributed offsetting receipts by about \$16 billion over the 1988-1992 period relative to CBO's baseline. The President is proposing to sell the government's interests in the power marketing administrations (PMAs) and the Naval Petroleum Reserves (NPRs). In addition, the President proposes using auctions to allocate the rights to use unassigned communications frequencies, and plans to sell some or all of the assets of Amtrak. CBO estimates that these asset sales, if implemented, could bring in over \$16 billion in receipts to the government by 1992, though lost income that would have been generated by some of these assets would total \$2.9 billion over the 1988-1992 period. In addition, the President is proposing to increase certain agency contributions for employee retirement, but because of the offsetting effects of assumptions about pay raises, there is no net effect on outlays in this function over the five-year period.

Power Marketing Administrations. Starting in 1989, the President recommends selling the five power marketing administrations (PMAs) in the Department of Energy: the Alaska PMA, the Bonneville Power Administration (BPA), the Southeastern PMA, the Southwestern PMA, and the Western PMA. These agencies sell and transmit the electricity produced at federal dams owned and operated by the Corps of Engineers and the Bureau of Reclamation. The Administration believes that marketing electricity is no longer a federal responsibility, and that states, localities, and private management could be more responsive to customer needs. CBO estimates that the government could receive about \$12.6 billion from such sales by 1992, which would be partially offset by lost income (in function 270) of about \$0.9 billion from 1989 through 1992 and additional amounts thereafter. The net five-year impact of this proposal is an estimated outlay reduction of \$11.7 billion.

Potential receipts from selling the PMAs are very uncertain, because of the differing values of these assets to prospective buyers, and because of the uncertain impact of the sale on the federal tax liability of potential buyers. Although the President's estimate of \$14 billion in sales receipts falls within a range of possible values, CBO estimates that the receipts are likely to be lower--about \$12.6 billion by 1992--based on an analysis of projected future income of the PMAs. This estimate assumes that purchasers would be able to set electric rates to their customers at competitive levels, and that purchase prices would reflect this expectation.

Naval Petroleum Reserves. The government owns approximately 78 percent of the Elk Hills oil field, known as NPR-1, and 100 percent of the Teapot Dome oil field, known as NPR-3. Selling these interests is estimated to increase federal receipts by \$3 billion by 1989. The selling price is highly dependent on the timing of these sales and the private market's expectations of future oil prices. Selling the reserves would reduce net income from oil sales by about \$2 billion over the 1989-1992 period. CBO estimates the net five-year impact of this sale to be \$1 billion in outlay reductions.

The budget includes receipts from the sale of the NPRs of \$2.5 billion in 1988 and \$0.8 billion in 1989, for a total of \$3.3 billion. CBO estimates receipts of \$2.2 billion in 1988 and \$0.7 billion in 1989, for a total sale amount of about \$3.0 billion. The primary reasons for the reestimates are that CBO assumes lower oil prices and a higher market discount rate than the Administration.

Auction of the Unassigned Spectrum. The President proposes giving the Federal Communications Commission the authority to use auctions, rather than the current methods of hearings or lotteries, in assigning licenses for use of communications frequencies that are currently not assigned. Such auctions are expected to generate \$0.6 billion in receipts in 1988.

Sale of Amtrak. The President's budget includes a proposal to sell all or part of the assets of Amtrak, with estimated receipts to the government of \$1 billion. CBO is unable to estimate the effect of this proposal, because it has not been clearly defined. Because of the complexity involved in disposing of Amtrak's assets, it may be difficult or impossible to obtain the receipts included in the President's budget in 1988. Furthermore, it is unclear to what extent the federal government could generate substantial receipts from the disposal of assets while maintaining Amtrak operations, or whether such operations would be continued at all in the absence of government subsidy payments (see function 400). Also, there is no apparent ready buyer for Amtrak's assets. Therefore, no savings are included in CBO's estimate of the budget.

Employer's Share of Employee Retirement. Agency contributions to employee retirement programs are intragovernmental payments, which are paid out of the individual program accounts and recorded as offsetting receipts in this function. Several proposals in the budget would increase agency payments for employee retirement, but offsetting reductions from the CBO baseline, resulting from the President's pay proposals, would outweigh increases by 1991 and 1992.

The President would gradually increase U.S. Postal Service payments for Civil Service Retirement until payments equal the full government share of retirement costs. Social Security and Medicare coverage would be expanded to include inactive duty earnings for Armed Forces reservists. Military personnel strength would also rise under the President's request. All of these proposals would increase agency payments into various employee retirement programs by a total of \$4.7 billion over the 1988-1992 period. The President, however, requests lower civilian pay raises each year and lower military pay raises after 1988 than in the CBO baseline. Because agency retirement contributions are based on employee pay levels, the lower pay raises would reduce these agency payments relative to the baseline. As a result, the employer share of employee retirement would be a total of \$0.8 billion above the baseline over the 1988-1990 period, but \$0.8 billion lower in the two-year period 1991-1992.

#### CBO Reestimates

The President's budget projects receipts from the Outer Continental Shelf (OCS) that are \$3 billion greater than those estimated by CBO over the 1988-1992 period. The budget includes higher receipts because it assumes that the Supreme Court will rule in favor of the federal government in a dispute with Alaska over escrowed OCS receipts and because it assumes higher oil and gas production and prices. CBO assumes that the escrowed OCS receipts would be split evenly between Alaska and the federal government. As discussed earlier, CBO includes no estimate of receipts from the sale of Amtrak assets, and projects lower receipts from the sale of the PMAs (a difference of \$1.4 billion) and the Naval Petroleum Reserves (a difference of \$0.3 billion).

## CHAPTER VI

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### THE ADMINISTRATION'S CREDIT PROPOSALS

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The President's 1988 budget proposes three federal credit initiatives. First, for many federal credit programs, it recommends reductions in the level of activity and in the subsidy provided per dollar loaned or guaranteed. Second, it endorses a change in federal credit accounting and management practices that would highlight the subsidy cost of new federal loan obligations and guarantee commitments in the unified budget. Third, it would expand the pilot sale of existing loan assets proposed in the 1987 budget. These recommendations are made in the belief that many credit subsidies are larger than originally intended; that the federal role in credit markets is too pervasive; that the cost of federal credit is largely hidden; and that federal credit programs offer opportunities for deficit reduction.

#### THE ADMINISTRATION'S CREDIT BUDGET

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The credit budget is a statement of direct loan obligations and guaranteed loan commitments. It measures the authority of federal agencies to make new offers of federal credit. In contrast to the unified budget that measures federally assisted credit net of repayments, the credit budget reports credit authority on a gross basis. The aggregate effect of the President's proposals for credit activity, as reestimated by CBO, would be to reduce new federal direct loan obligations in 1988 by \$4.5 billion relative to the CBO baseline (see Table VI-1). Over five years, the decrease would total \$40.6 billion. CBO also estimates that new guaranteed loan commitments would decline by \$31 billion and \$198.5 billion in 1988 and the 1988-1992 period, respectively.

A complete, detailed discussion of the President's proposed changes for credit programs by major function appears in Chapter V. Only the most significant of these changes are noted here and summarized in Table VI-2.

#### Commodity Credit Corporation

Farmers may borrow the support-price value of their crops by putting up the crops as collateral. The Administration proposes to reduce crop target prices 10 percent per year beginning with 1988 crops. CBO projects this

would cause farmers to reduce production of wheat, feed grains, cotton, and rice compared with baseline levels. Lower crop production would tend to reduce farmer use of price support loans by an estimated \$7.1 billion below the CBO baseline over five years.

### Agricultural Credit Programs

Agricultural credit programs administered by the Farmers Home Administration include both direct loans and guarantees to fund farm operations, real estate purchases, and recovery from natural disasters. The President proposes a change in structure by reducing the level of direct loans for these purposes, the estimated subsidy cost of which in 1986 was more than 12 percent of the loan amount, and by increasing the use of guarantees, the

TABLE VI-1. THE ADMINISTRATION'S CREDIT BUDGET  
AS ESTIMATED BY CBO (By fiscal year,  
in billions of dollars)

	1988	1989	1990	1991	1992	Cumulative Five-Year Total
<b>Direct Loan Obligations</b>						
CBO Baseline	35.5	34.7	34.0	33.7	33.7	171.6
Proposed Changes	-4.5	-7.0	-8.5	-9.6	-11.0	-40.6
President's Credit Budget						
Reestimated by CBO	31.0	27.7	25.5	24.1	22.7	131.0
<b>Guaranteed Loan Commitments</b>						
CBO Baseline	149.5	151.0	158.9	166.5	172.6	798.5
Proposed Changes	-31.0	-38.1	-41.1	-43.4	-44.9	-198.5
President's Credit Budget						
Reestimated by CBO	118.6	112.9	117.8	123.1	127.7	600.1

SOURCE: Congressional Budget Office.

TABLE VI-2. MAJOR PROPOSED CREDIT PROGRAM CHANGES,  
1988-1992 (By fiscal year, in billions of dollars)

Major Program	1988	1989	1990	1991	1992	Cumulative Five-Year Total
<b>Direct Loan Obligations</b>						
CBO Baseline	35.5	34.7	34.0	33.7	33.7	171.6
Proposed Changes						
Rural Electrification	-1.6	-1.8	-2.0	-2.1	-2.2	-9.7
Commodity Credit Corporation	0.0	-0.8	-1.5	-2.1	-2.6	-7.1
FmHA Agricultural Credit	-0.3	-1.1	-1.1	-1.1	-1.3	-4.9
FmHA Rural Housing	-2.1	-2.2	-2.3	-2.4	-2.5	-11.6
FmHA Rural Development	-0.2	-0.4	-0.5	-0.5	-0.5	-2.1
Housing for Elderly or Handicapped	-0.5	-0.6	-0.7	-0.7	-0.7	-3.2
Rural Telephone Bank	-0.1	-0.1	-0.2	-0.2	-0.2	-0.7
Other	0.5	0.1	-0.2	-0.5	-1.0	-1.3
Total	-4.5	-7.0	-8.5	-9.6	-11.0	-40.6
President's Credit Budget Reestimated by CBO	31.0	27.7	25.5	24.1	22.7	131.0
<b>Guaranteed Loan Commitments</b>						
CBO Baseline	149.5	151.0	158.9	166.5	172.6	798.5
Proposed Changes						
Rural Electrification	1.0	1.3	1.6	1.6	1.6	7.1
Small Business Administration	-0.1	-0.2	-0.4	-0.5	-0.6	-1.9
Commodity Credit Corporation	-2.0	-2.0	-2.0	-2.0	-2.0	-10.0
Guaranteed Student Loans	-1.7	-1.5	-1.5	-1.5	-1.5	-7.8
Community Development	-0.2	-0.2	-0.2	-0.2	-0.2	-0.8
Federal Housing Administration	-24.7	-33.2	-36.0	-38.0	-39.2	-171.1
Veterans Administration	-2.3	-2.1	-2.3	-2.5	-2.7	-11.9
Other	-0.9	-0.2	-0.3	-0.3	-0.3	-2.1
Total	-31.0	-38.1	-41.1	-43.4	-44.9	-198.5
President's Credit Budget Reestimated by CBO	118.6	112.9	117.8	123.1	127.7	600.1

SOURCE: Congressional Budget Office.

subsidy cost of which is estimated at 5.5 percent of principal. Agricultural Credit Insurance Fund direct loans would decline a total of \$4.9 billion, relative to the baseline, by 1992.

#### Rural Housing and Rural Development

These Farmers Home Administration loan programs would be terminated in 1988. Rural housing loans would be replaced by housing vouchers like those used in urban housing programs. These two terminations account for \$13.7 billion or one-third of the total five-year reduction in federal direct loans proposed by the President.

#### Rural Electrification Administration

Lending by REA would be phased down in 1988 and 1989 and terminated in 1990. Both the direct loan and 100 percent guarantee programs would be replaced by a 70 percent guarantee on the principal amount advanced by private lenders. To accelerate repayments on existing federal loans disbursed by the Federal Financing Bank, borrowers would be permitted to prepay without penalty. They would be offered a discount on prepayments if they agreed not to seek further assistance from REA. The effect of this shift is evident from the \$9.7 billion decline in REA direct loans relative to the baseline and in the projected \$7.1 billion increase in REA guarantees.

#### Housing for the Elderly or Handicapped

These direct construction loans would be reduced \$500 million to \$700 million per year. Some of the reduction in this program would be replaced by housing vouchers provided directly to beneficiaries.

#### Small Business Administration

Credit assistance to small business would be shifted from direct loans toward loan guarantees. Guarantee fees would be increased, and the percent of principal guaranteed would be reduced gradually from 90 percent to 75 percent by 1992. CBO estimates that loan guarantee levels would be reduced by the Administration by \$1.9 billion over five years.



### Guaranteed Student Loans

Under the Administration's proposals, borrowers would pay a 9 percent, one-time, up-front origination fee, instead of the 5 percent fee now paid. The higher fee is intended to cover default losses in the program. In addition, the federal payment of interest on the loan during in-school, deferment, and grace periods would be ended. The interest subsidy paid by the government to lenders would also be reduced. Restrictions on the amount that can be borrowed by students would be dropped, however. CBO projects that the net effect of this change would be to reduce GSL originations by \$1.5 billion to \$1.7 billion per year.

### Federal Housing Administration Mortgage Insurance

Terms on this insurance would be more restrictive. The insurance premium would be increased from 3.8 percent of the mortgage to 5 percent. Families with annual incomes over \$40,000 would be required to make a 5 percent down payment to qualify for mortgage insurance. Only mortgages on primary residences would be eligible. No closing costs or insurance premiums could be included in the mortgage. CBO estimates that such changes would reduce FHA insurance commitments by \$24.7 billion in 1988, increasing to \$39.2 billion per year in 1992. This decline accounts for more than 75 percent of the total reduction in guarantees proposed by the President.

### VA Mortgage Guarantees

Origination fees for VA mortgages would be increased from 1 percent to 2.5 percent of the mortgage. This increase is projected to reduce VA guaranteed mortgages by \$2.1 billion to \$2.7 billion per year in the 1988-1992 period.

## CREDIT REFORM

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The Administration's plan would improve the budgetary display of new credit activity by reporting credit subsidy costs in the agency budget accounts and the associated cash flows for new loans and guarantees in the account of a new revolving fund in the Treasury. Under current accounting practices, credit programs give rise to outlays when loans are disbursed and to offsetting collections or receipts when repayments are received. Thus, an agency loan account may show net outlays of zero--if repayments equal dis-

bursements--in a year in which a large volume of deeply subsidized loans are originated.

Further, under current practice, new loan guarantees are shown as having no outlay costs until a guaranteed loan goes into default and federal disbursements are required. If fees are charged for loan guarantees, the first-year effect of issuing new guarantees is to reduce outlays since these fees are recorded as offsetting receipts. Net outlays for guarantees now shown in the budget consist of disbursements to honor commitments issued in previous years, less fees and recoveries on defaulted loans.

To reflect the costs of current activity more accurately, the Administration proposes to estimate and recognize in the agency loan accounts the present value of the future subsidy when a new loan is obligated or a new guarantee is committed. That is, instead of reporting an outlay cost of \$100 when a \$100 loan is disbursed, the Administration would show as a credit cost only that portion of loan funds that constitutes a subsidy. This subsidy cost is approximately equal to the present value of the difference between the payments a borrower makes with federal assistance and the payments made by that borrower in a fully private transaction. Similarly, in the case of a guaranteed loan, rather than show an outlay cost of zero when commitments are issued, the Administration would show the estimated present value of future costs of this commitment.

To achieve the substitution of subsidy cost for the current period cash flows of credit transactions in agency loan accounts, the President would create a new federal revolving fund in the Treasury. Agencies operating federal credit programs would request annual appropriations equal to the subsidy to be provided by new loan obligations and guarantee commitments. As agencies originated loans and issued guarantee commitments, they would pay from these appropriations the estimated subsidy value of those credits to the central revolving fund. The central fund would disburse loans and make guarantee payments. It would finance these outlays with subsidy payments received from the agencies and with borrowing from the Treasury.

Subsidy cost is defined as the additional payments a borrower would have had to make for a fully private, rather than a government-assisted, loan. The size of the subsidy can be estimated either by sampling market interest rates and performing the necessary calculations or, more directly, by selling loans and reinsuring guarantees with private insurers. For loan sales and reinsurance, the subsidy cost is the government's loss on the transaction; for loans, the amount advanced less the sale price; for guarantees, the insurance fee paid to the insurer less the fee collected by the government from the borrower.

The Administration proposes that subsidy cost estimates be obtained both by calculation and by sales and reinsurance. Loans that could be readily sold would be marketed to investors. Where private credit insurance is available, the government would reinsure its risk. For loans regarded as unsuitable for sale, such as those to foreign countries, and for uninsurable guarantees, the central fund would estimate the subsidy and charge the agencies that amount.

Loans already held by government and existing guarantees would not be transferred to the new revolving fund. Repayments from existing loans would be credited to the original disbursing accounts, which would also retain responsibility for honoring all currently outstanding guarantees. In order to effect a complete substitution of subsidy cost for net cash flows in the credit agency loan accounts, however, these flows from the old loan and guarantee portfolio should not be permitted to enter the agency accounts. This shortcoming of the Administration's proposal is discussed below.

#### Effect of Credit Reform on the Budgetary Cost of Credit Assistance

The effect of reallocating credit costs can be shown using actual cash flows and estimated subsidy costs for 1986. Table VI-3 shows the effects on the accounts of the credit agencies and the new revolving fund of implementing the Administration's proposal in that year. It is assumed in Table VI-3 that CCC price support direct loans--which are actually commodity purchases--have been excluded from credit and reclassified as purchases of goods. (The results shown in Table VI-3 would be somewhat different if the Administration's plan had been instituted before 1986. For example, "old" repayments in 1986 would differ if the plan had been put into effect in, say, 1983.)

The new system would highlight the subsidy cost of credit, or \$16.9 billion, in the agency accounts. This amount is an increase of \$3.3 billion from the \$13.6 billion reported under current budgetary treatment. Note that total outlays for all credit agencies and the new revolving fund combined are the same as the net outlays for credit currently attributed to the credit agencies. Notice, too, that the credit agencies will continue to show cash flows from old loans and guarantees (\$6.3 billion in 1986). Presumably, the detailed proposal from the Administration (due in March) will address the need to prevent these flows from being combined with subsidy cost. If such a separation is not achieved, the subsidy cost concept will be muddled by these cash flows. In time though, as the old loans mature and existing guarantees expire, this problem will disappear and the credit agency

accounts will consist solely of subsidy cost payments. At that point, guarantee disbursements and repayments from outstanding loans will appear only in the revolving fund accounts.

TABLE VI-3. THE REALLOCATION OF CREDIT COSTS ACROSS AGENCY AND NEW REVOLVING FUND ACCOUNTS UNDER THE PRESIDENT'S CREDIT REFORM PROPOSAL, FISCAL YEAR 1986 (In billions of dollars)

Current Budgetary Treatment	
Credit Agencies	
Disbursements for loans	22.5
Repayments and guarantee disbursements (net)	-6.3
Guarantee fees	-2.6
Net Cash Outlays	13.6
Credit Reform Proposal	
Credit Agencies	
Subsidy cost paid to the revolving fund	
For new direct loans	8.9
For new guarantees	8.0
Subtotal, subsidy cost	16.9
Repayments from old loans and disbursements for old guarantees (net)	-6.3
Subtotal, credit agencies net outlays	10.6
Central Revolving Fund	
New disbursements for loans	22.5
Subsidy fees received	-16.9
Guarantee fees collected	-2.6
Subtotal, revolving fund net outlays	3.0
Net Outlays	13.6

SOURCE: Congressional Budget Office.

NOTE: Excludes CCC price support direct loans from credit accounts.

Table VI-4 shows the relationship between estimated subsidy cost and net cash outflows in recent years. Subsidy cost is more stable over time than net cash outflow. In addition, subsidy cost was less than cash outflow for credit in 1984 and 1985.

#### Effect of Credit Reform on the Deficit

The President's proposal would not affect the definition of the unified deficit. The size of the deficit would be affected, however, to the extent the President proposes selling new loans and reinsuring guarantees. Under its credit reform plan, the Administration has proposed to realize net cash inflows of \$1.8 billion from the sale of newly originated loans and to pay out guarantee reinsurance premiums of \$0.5 billion in 1988. If these plans are realized, credit reform will reduce the deficit by \$1.3 billion in 1988.

The Administration's credit reform proposal would improve the budgetary representation of new loans and guarantees by substituting subsidy cost in the agency accounts for the current period cash flows associated with these transactions. This change would implement the recom-

TABLE VI-4. CASH OUTFLOW AND ESTIMATED SUBSIDY COST  
(By fiscal year, in billions of dollars)

	1984	1985	1986
New Loan Disbursements	36.7	39.4	22.5
Repayments Received	-17.4	-16.4	-16.4
Outlays for Guarantees	8.1	9.9	10.7
Recoveries on Defaults	-0.3	-0.4	-0.6
Guarantee Fees Collected	-1.4	-1.5	-2.6
Net Cash Outflow	25.7	31.0	13.6
Estimated Subsidy Cost			
Direct loans	9.1	10.0	8.9
Guaranteed loans	7.0	6.3	8.0
Total	16.1	16.3	16.9

SOURCE: Congressional Budget Office.

NOTE: Cash flows calculated from historical budget data. Subsidy cost obtained from Office of Management and Budget directly, or indirectly through the use of the OMB subsidy model.

mendation of the President's Commission on Budget Concepts to include only the subsidy elements of federal loans in credit agency accounts. The rationale which justifies this change also suggests that the budget deficit should not be affected by repayments of "old loans" or cash inflows from loan asset sales. That is, subsidy cost can be justified as a better measure than incidental cash flows because it properly focuses on the government's loss on credit transactions. Similarly, one can argue that a deficit intended to measure the change in the government's financial condition should not be affected by receipt of anticipated loan repayments or the acceleration of such repayments through loan asset sales. In the President's budget for 1988, both loan asset sales and loan repayments contribute to a lower deficit. As loan sales grow, their importance for deficit reduction, as currently measured, increases.

One means of immunizing budget outlays and the deficit from the effects of repayments and loan sales would be to reclassify all of these cash flows as "below the line" means of financing the deficit. Under current conventions, the deficit (outlays minus receipts) is considered to be financed by changes in Treasury balances, changes in checks outstanding, seigniorage on coins, and borrowing from the public. The "below the line" means of financing portion of the budget could be defined also to include all cash flows associated with federal credit programs. The effects of such a change are illustrated with budget data for 1984, 1985, and 1986 in Table VI-5. (The data in Table VI-5, as well as VI-3 and VI-4, differ from published figures in that Commodity Credit Corporation price support loans have been excluded from credit programs.)

To move credit cash flows below the line, the amount of credit subsidy cost, loan repayments, and loan sale proceeds must be added to the unified deficit, and disbursements must be subtracted. The reason for making these adjustments is to include subsidy cost in outlays and the deficit but to remove repayments and loan sales receipts which have been inappropriately included as offsetting collections. To make sense of the entries in the means of financing part of the budget, note that the subsidy cost entry does not correspond to a cash outlay yet--unless the loans are sold or the guarantee reinsured. It is an accounting entry reflecting an estimate of a future subsidy's present value. Thus, the subsidy cost which is included in the current period deficit is also a means of financing that current period deficit. Repayments provide a positive means of financing, but disbursements add to financing requirements and, therefore, are entered with a negative sign. In Table VI-5, all repayments disbursements, fees, and recoveries are consolidated into net credit cash flows. The negative sign means that outflows for credit exceeded inflows. The other financing entries are currently defined as means of financing.

This accounting change would reduce the deficit in 1984 and 1985, but raise it in 1986. As loan asset sales increase in 1988 and beyond, the procedure would also result in higher deficits than those recorded using existing definitions, because it would not permit loan asset sales to reduce the deficit. Since the resulting deficits could be quite different than under current budgetary practice, such an accounting change might necessitate revision of the deficit targets in the Balanced Budget Act.

### PORTFOLIO LOAN SALES

In addition to selling new loans as a part of credit reform, the Administration proposes to expand the pilot loan sale program from a 1987 budget level of \$8.8 billion in face value to \$11.2 billion in 1988. The loans to be sold in this expanded pilot effort, listed in Table VI-6, are estimated by the Administration to have a market value of \$6.9 billion. The principal and

TABLE VI-5. EFFECT ON THE BUDGET OF RECLASSIFYING  
CREDIT CASH FLOWS AS A MEANS OF FINANCING  
(By fiscal year, in billions of dollars)

	1984	1985	1986
Cash-based Deficit	185.3	212.3	220.7
Credit subsidy cost	16.1	16.3	16.9
Loan repayments (net of guarantee outlays, recoveries, and guarantee fees)	11.0	8.4	8.9
Loan sale receipts	2.5	1.5	1.6
Disbursements	-36.7	-39.4	-22.5
Adjusted Deficit	178.2	199.1	225.6
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Means of Financing			
Credit subsidy cost	16.1	16.3	16.9
Net credit cash flows	-23.2	-29.5	-12.0
Changes in fund balances, checks outstanding, seigniorage	14.5	15.0	-15.6
Borrowing from the public	170.8	197.3	236.3
Total	178.2	199.1	225.6

SOURCE: Congressional Budget Office.

NOTE: Excludes CCC price support loans from credit.

TABLE VI-6. LOAN ASSETS PROPOSED FOR SALE, ADMINISTRATION PILOT PROGRAM, FACE VALUE AND PROJECTED RECEIPTS, NET OF LOST REPAYMENTS, 1987-1992  
(By fiscal year, in billions of dollars)

	1987	1988	1989	1990	1991	1992
FmHA Rural Housing						
Face value	2,200	1,200	1,000	1,000	1,000	1,000
President's net receipts	1,715	830	631	603	534	534
FmHA Rural Development						
Face value	1,870	1,200	1,000	1,000	1,000	380
President's net receipts	1,000	502	306	230	149	68
Rural Electrification						
Face value	0	1,000	1,000	1,000	1,000	1,000
President's net receipts	0	653	583	513	443	373
Rural Telephone Bank						
Face value	0	500	500	200	0	0
President's net receipts	0	449	403	133	(115)	(115)
SBA Business Loans						
Face value	0	1,000	1,000	0	0	0
President's net receipts	0	140	27	(155)	(75)	(58)
SBA Disaster Loans						
Face value	600	670	670	670	670	662
President's net receipts	277	168	80	25	(21)	(61)
SBA Development Companies						
Face value	0	500	397	0	0	0
President's net receipts	0	249	220	(60)	(60)	(60)
Federal Housing Administration						
Face value	300	350	0	0	0	0
President's net receipts	217	212	(64)	(64)	(64)	(64)
HUD Rehabilitation Loans						
Face value	0	350	308	0	0	0
President's net receipts	0	35	31	(67)	(67)	(67)
HUD Community Development						
Face value	35	200	94	0	0	0
President's net receipts	21	120	9	(39)	(39)	(39)
Housing for the Elderly or Handicapped						
Face value	0	500	0	0	0	0
President's net receipts	0	444	(45)	(45)	(45)	(45)



TABLE VI-6. (continued)

	1987	1988	1989	1990	1991	1992
College Housing Loans						
Face value	983	931	59	34	0	0
President's net receipts	579	522	(101)	(118)	(139)	(139)
Higher Education Facilities						
Face value	0	142	51	33	0	0
President's net receipts	0	83	18	3	(22)	(22)
VA Vendee Loans						
Face value	800	300	300	300	0	0
President's net receipts	720	176	152	129	92	55
Export-Import Bank						
Face value	2,018	1,200	1,000	1,000	1,000	1,000
President's net receipts	1,500	312	(116)	(291)	(434)	(528)
Reclamation Loans						
Face value	0	358	0	0	0	0
President's net receipts	0	154	(10)	(11)	(13)	(13)
HHS Medical Facilities						
Face value	0	132	0	0	0	0
President's net receipts	0	38	(8)	(8)	(9)	(10)
HMO Loans						
Face value	0	97	0	0	0	0
President's net receipts	0	24	(8)	(8)	(8)	(8)
Railroad Rehabilitation						
Face value	0	583	0	0	0	0
President's net receipts	0	206	(8)	(8)	(8)	(8)
TVA						
Face value	0	0	256	0	0	0
President's net receipts	0	0	189	(39)	(39)	(39)
Total						
Face value	8,806	11,213	7,635	5,287	4,670	4,042
President's net receipts	6,029	5,317	2,289	723	60	(246)
Net Receipts Reestimated by CBO	5,112	5,473	2,253	362	(541)	(1,303)

SOURCES: Congressional Budget Office; Office of Management and Budget.

interest forgone by the government in 1988 as a result of the sale would diminish the net deficit reduction to \$5.3 billion. CBO's reestimate of the net deficit reduction in 1988 from these loan asset sales is \$5.5 billion.

An additional \$600 million in face value of loans would also be sold in 1988 for programmatic reasons. These sales would consist of (in face value) \$329 million of GNMA tandem plan loans and \$283 million of defaulted guaranteed student loans and national direct student loans. Since GNMA loans have been sold in recent years, these sales would represent the continuation of current policy. In the past, however, these loans have been sold with federal guarantees attached. Loan sales "with full recourse" to the federal government or other forms of guarantee in which the federal government retains the credit risk are not genuine sales given that the government continues to be liable for all default risk. Accordingly, OMB and CBO no longer treat such transactions as sales. The GNMA program is grandfathered for 1987. GNMA tandem sales will be treated as borrowing in 1988, the last year such transactions are projected to occur. Defaulted education loan sales are considered to be "programmatic" because they are viewed by the Administration as a part of a collection effort rather than a sale of securities.

**APPENDIXES**

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